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THE BEEF AND CITRUS ISSUE: A FRAGILE SHOCK ABSORBER

Summary

After the long battle with the United States over agricultural trade issues, Japanese negotiators have turned their minds to the inevitable next round of consultations. In pursuit of more reasonable and low-key diplomacy, Japanese participants are considering some kind of framework more appropriate to an issue as sensitive as agricultural trade.

This paper will review the background of the dispute over market access for agricultural commodities, with specific reference to the recent trade negotiations over beef and citrus quotas. Prospects for future talks and the importance of arriving at a response with due consideration for Japan's other trading partners will be discussed.

Industrial and Political Background

A number of critical questions need to be answered in order to understand the background of the recent agricultural trade disputes: Why are the interests of a small segment of the population so heavily protected, and how can a few farmers cause such serious friction between two economic superpowers? More specifically, why are beef and citrus quotas retained in the face of opposition from Japan's powerful business community, whose interests lie in responding to the United States' complaints about Japan's record trade surpluses? And why is the Japanese farmer immune to criticism from Japanese consumers, who are forced to buy beef and citrus products at far higher prices because of the import limits?

To explain these apparently incongruous circumstances, it is necessary to examine the balance of power between agriculture and industry in Japan. The political support of farm groups forms the foundation of the conservative Liberal Democratic Party (LDP). The majority power in the Diet for the last 30 years, the LDP is substantially supported by rural voters. Politically, the interests of beef and citrus farmers are represented by Nokyo, the powerful agricultural cooperative. Despite the sharp postwar decline in the ratio of farmers and the ratio of agricultural production, farmers politically play a very strong role. Last year, when Nokyo polled all the political parties about the desirability of liberalizing agricultural trade, predictably, every party except the New Liberal Club opposed it; Japan's electoral structure greatly favors rural votes. Indeed, it is almost impossible to name a single Dietman who openly advocates liberalization of the agricultural market, especially vis-a-vis beef and citrus quotas.

Consumers

Compared to the farmers' disproportionately powerful position against market liberalization, the consumer's voice is remarkably weak. Liberalization would significantly reduce the price of government-regulated agricultural products -- especially beef and citrus -- to the obvious advantage of the consumer. Incredibly, however, Japanese consumers have made no concentrated protest. In fact, whenever the subject of agricultural trade is discussed with Japanese consumer groups, they invariably proclaim themselves opposed to liberalization.

Historically, this opposition is founded on concern for a secure food supply and the value placed on this feature despite the fact that it is more expensive to protect domestic products than to purchase imported commodities. To many Japanese who remember severe wartime food shortages, that memory was vividly recalled in the summer of 1973 when the United States embargoed soybean exports -- a product of considerable importance to Japan. Ironically, Japan had almost given up domestic soybean production following the aggressive increase in American soybean exports.

Japanese consumer groups have another reason to oppose liberalization; the preference for domestically grown produce which is protected by the government against inappropriate use of preservatives. A specific incident several years ago reinforced consumer organizations' distrust of imported agricultural produce. In 1977 and 1978, the United States successfully pressed the Japanese government to import citrus which Japan had previously banned. The lemons were considered unsafe because of the application of a certain preservative prohibited in Japan.

Organized Business Groups

Some of Japan's powerful business groups have supported the liberalization of agricultural imports. To members of these organizations, trade with the United States makes it imperative that the government act to ease trade tensions. In fact, last year, one organization called the Committee

for Economic Development (Keizai Doyukai) proposed a five-year plan to achieve complete liberalization of Japan's market. Yet the group made no significant attempt to lobby for this position when the agricultural trade talks were under way. One reason, according to a Keidanren (the Federation of Economic Organizations) economist is that this position is politically difficult to express publicly. Early this year, for instance, farm organizations in Hokkaido targeted certain companies -- including Sony Corp. -- whose executives had spoken out in favor of the elimination of trade barriers on agricultural commodities and attempted a boycott of the firms' products. The farmers had begun to feel the squeeze between American insistence on market opening measures and the Japanese government's tight-fisted stance on agricultural subsidies. Cuts in farm subsidies are part of the overall government austerity program strongly cheered by the business community.

The Press and Academia

The Japanese press has generally been sympathetic to calls for trade liberalization, and economists and academic representatives are also philosophically inclined to support free trade. One group of professors and economists, after extensive research on Japanese agriculture, concluded last year that the market should be completely liberalized in the next five years. The group proposed excluding rice and wheat from this action, and retaining some surcharge system on imports of beef and citrus products to compensate farmers. During the recent bilateral deliberations, however, the group remained silent. The economic advisers showed little enthusiasm for pursuing agricultural liberalization, particularly decontrol of beef (Table 1).

Theoretically, this group supports a general liberalization, in which case Australia, with its lower-priced grass-fed cattle, would presumably be the main beneficiary. However, Japan's huge trade imbalance with the United States forces trade negotiators to bend to American demands. Furthermore, the recommendations have been repeated by the government and the farm bloc. One farmers' group, Zenchu (The Central Union of Agricultural Cooperatives), found the "liberalization with some financial support" conclusion unacceptable, warning that it could not trust a government pledge of continued financial support at a time when the budget is so tight.

Historical Background

Serious bilateral trade frictions first emerged in the early '70s over the question of Japan's textile exports. Soon the flow of Japanese steel, televisions and automobiles was reined in by "voluntary restraint" agreements, and Japanese manufacturers invested in American subsidiaries or entered into joint venture operations with U.S. companies. These moves have substantially silenced critics of Japanese export aggression.

U.S. exporters, for their part, pushed vigorously in the late '70s for access to Japan's markets for cars, chemical products and semiconductors. The focus then shifted to the service industries -- banking, securities, telecommunications and computer software -- the latest market-access issues.

Increases in the U.S. beef and citrus quotas became a priority in the 1977 Tokyo Round of trade negotiations. It should be noted now that there are

no other American commodities so disputed in the context of market liberalization. Not even the complete liberalization of Japan's agricultural market will correct the huge bilateral trade imbalance. The United States would, at the most, stand to gain an annual \$800 million, assuming American beef was more competitive than Australia's and that the United States could compete with Brazil for orange juice exports. In short, beef and citrus have become a political dead-end, illustrating the limits of the Japanese market.

Lightning Rod

In assessing the results of the new package, Minoru Tsukada, deputy director-general of the Ministry of Agriculture, Forestry and Fisheries (MAFF), told JEI: "Both Japan and the United States could have handled the negotiations more smoothly. We launched those discussions with extreme dogmatism on both sides. The U.S. side demanded 'immediate, complete liberalization'. The Japanese flatly insisted on 'no quota increase', not to mention liberalization. We spent almost two years talking that way. It was only at the final stage that the United States recognized the futility of the liberalization demand, and modified its strategy to a more pragmatic approach." Having checked an unofficial network of farmers in both countries, Mr. Tsukada had good information that what U.S. orange growers really wanted from Japan was an increase in the quota.

"Beef, on the other hand," said Mr. Tsukada, "was extremely political. We recognized that in the United States there are at least as many special interest groups as states, and they are awfully powerful. We had the same problem. Both sides were under intense domestic pressures."

Difference of opinion within the American negotiating team were criticized by some Japanese government officials. A MAFF official complained: "We were exhausted trying to follow U.S. negotiators who were competing with each other to see who could be toughest in dealing with Japan. That kind of internal rivalry makes bilateral talks unnecessarily complicated."

Even so, some trade representatives take another view. Yamagata Prefecture Dietman Koichi Kato, a key member of the LDP agricultural policy group, told JEI in an interview that such "tension" is necessary in international political dynamics. "In the context of the current Japan-U.S. relationship," Kato commented, "with a huge trade imbalance and a delicate political climate, the agricultural talks shouldn't be settled too smoothly. The talks were a kind of 'lightning rod' to divert the dangerous voltage of resentment." It would seem that after decades of escalating pressure, which the United States has initiated and intensified, the relationship now is balanced at a delicate point midway between serious friction and relative stability.

It is plausible that agricultural trade issues work as a shock absorber for a bilateral relationship plagued by the imbalances of both trade flows and defense. One problem with this theory in practice, however, is that beef and oranges clearly have different market destinies. Although generally considered a single issue, it is becoming clear that they ought to be differentiated.

There is little evidence that liberalization of orange imports will affect Japan's mikan growers as long as they continue to control their output (Table 2). A MAFF official who specializes in agricultural trade told JEI that the quota on oranges will be lifted several years after the current agreement expires in March 1988. Mr. Kato also indirectly confirmed this possibility. He noted that as the volume of foreign oranges allowed into Japan has increased, importers can no longer tack on the huge profit margins they once did. "The value of an orange import license has definitely diminished," he added.

But MAFF officials underscore the importance of quotas on beef. Mr. Tsukada said that beef quota system will continue "for the foreseeable future." The need to retain beef import restrictions goes beyond protecting the cattle raisers. Agricultural economists point to the virtues of fertilizing the land by raising cattle, and warn that any cutbacks in cattle production risk sacrificing the nation's self-sufficiency. Moreover, Japan wants to avoid a sudden change in food consumption patterns. If dropping the beef import quota resulted in a rapid increase of beef consumption in Japan, rice, pork, chicken and fish consumption would fall drastically, causing serious problems for these agricultural areas. "In any case," Mr. Tsukada said, "the yearly beef quota increases will continue at least at the same levels as in the past within the framework of the long-term agricultural balance sheet."

Prospects for the Next Round

Shortly after the U.S.-Japan negotiations, two other meetings on agricultural trade were held: Australian Minister of Primary Industry John Kerin arrived in Tokyo to request an increase in Japan's general beef quota; and the International Federation of Agricultural Producers (IFAP) met in New Delhi. Participants at both conferences were affected to some extent by the outcome of the earlier talks (see JEI Report No. 20B, May 18, 1984). The Australians, who are concerned that Japan's agreement with the United States sacrifices Australia's share of the beef quota, would like to see the ceiling lifted. But the Japanese maintain that beef imports can only be expanded as demand rises.

In the IFAP discussions in New Delhi, the Japanese farmers' position was elaborated by Iwao Yamaguchi, senior executive director of Zenchu. The Zenchu document warned that food security required domestic production capabilities, and opposed imports except to make up shortfalls in domestic production. In an interview with JEI, Mr. Yamaguchi explained the organization's goals: "First, we would like to see the GATT code revised so that agricultural trade is recognized as a special area. We would like to trade on a multilateral basis -- that is, to import an amount which complements the shortage of domestic supply -- from those countries offering the most competitive price and quality. With beef, for example, we would offer about a 9,000-ton import increase per year and invite tenders from any exporting countries."

The agriculture official, who observed that Australia and New Zealand were quite critical of the U.S.-Japan trade agreement, conceded that Japan is running a huge surplus in trade with the United States and a substantial

deficit with Australia, but he contends that observers in Japan who have followed the issue feel that the trade talks should have been carried out with more multilateral consideration.

Zenchu's proposal that the GATT code be revised will not find a welcome reception, especially since the United States is vehemently opposed. Some cynics have commented that the proposal was formulated to deflect the anger of the farmers, who oppose the agreement and who have called for the resignation of top Zenchu officials.

A more reasonable multilateral farm trade approach could be discussed in the course of the new round of multilateral trade talks proposed by Japan at the last Organization for Economic Cooperation and Development (OECD) meeting in Paris. Earlier, agricultural issues were discussed without much attention to multilateral interests. Now, however, due to the sensitivity of the issue, some way to diversify the negotiations ought to be considered.

For further information, contact Hiroshi Ando.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1: Japan's Beef Imports

(in metric tons)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
United States	23,534	22,437	26,464	31,570	37,715
Canada	817	1,539	1,957	69	2,606
Australia	100,430	92,935	86,952	85,998	90,952
New Zealand	3,432	3,924	6,143	3,641	7,724
Total Imports	129,670	121,889	122,432	122,079	137,428
Total Quota*	134,500	134,800	126,800	135,000	141,000
General Quota	116,500	119,000	111,000	119,200	125,200
Special Quota	18,000	15,800	15,800	15,800	15,800

*Although Japan's beef quotas are announced on a fiscal year basis, the quotas are actually allocated for import on a calendar year basis. For example, the quota for the first half of FY 1983 (April 1983-September 1983) was allotted for import during the July-December 1983 period, while the quota for the second half of FY 1983 (October 1983-March 1984) was allotted for import over the January-June 1984 period.

Source: Ministry of Finance, Japan Exports and Imports: Commodity by Country

Table 2: Japan's Orange Imports

(in metric tons)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
United States	53,414	71,149	75,249	82,284	89,048
Total Imports	54,075	71,403	75,471	82,421	89,191
Total Quota*	45,000	68,000	72,500	77,000	82,000
Seasonal Quota (June-August)	22,500	35,000	38,500	42,000	45,500

*On a fiscal year basis. Does not include the special import quota for Okinawa.

Source: Ministry of Finance, Japan Exports and Imports: Commodity by Country